

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting

Docket No. RM2011-10

Comments of the Public Representative in Response to Order No. 727

(June 13, 2011)

I. Procedural History

On May 10, 2011, the Postal Service requested that the Commission initiate a proceeding to consider a change in analytical principles relating to the evaluation of competitive NSAs.¹ The Commission initiated this rulemaking docket and appointed the undersigned as Public Representative in Order No. 727 on May 12, 2011, and set a deadline for comments of June 13, 2011.²

II. Proposal Two Contents

The Postal Service proposes that four changes be made to the cost models used for evaluating Priority, Parcel Select, and Parcel Return Service NSAs

These four changes are:

- 1) the addition of a cost avoidance for Priority mailpieces;
- 2) the inclusion of D-Report adjustments;
- 3) the incorporation of the CRA adjustment for Alaska Air Priority transportation;
- 4) changes in the distribution of other costs for Parcel Select and Parcel Return Service

The Postal Service included these changes in the initial filing of the 2010 ACR Library Reference USPS-FY10-NP27. The Postal Service characterizes two of these changes as “corrections” as compared to changes in analytical principles. The changes proposed by the Postal Service are improvements that lead to more accurate costing, but the rationale for including them has not been fully explained or detailed, either in this

¹ Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles.(Proposal Two). (May 10, 2011).

² Order No. 727, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Two). May 12, 2011

docket or in response to ACR 2010 CHIR no 5 question 3.³ As such, it is difficult to define the proposed changes as either “corrections” or “changes in analytical principles.”

Two of the proposed changes are straightforward. The D report adjustment correctly aligns the CRA estimate for cost of providing a particular product. As stated by the Postal Service, the distribution of “other costs” must be adjusted to account for the D-report adjustment.

The adjustment of Alaska Air Transportation costs for the C-Report is also straightforward, but may be improved by additional refinement in the future. Where information regarding individual contracts is available, it may be reasonable to adjust transportation costs specific to each contract. When a contract is with a mailer that sends significant volumes to Alaska, and uses more of the Alaska Air transportation network, it seems reasonable to account for the additional cost that mailer may incur. Conversely, if a mailer does not send any volume to Alaska (or send any mail that requires air transportation) it may not be necessary to account for those network costs.

The workpapers containing the cost avoidance for Priority Mailpieces appears to be correctly calculated, but the source material contained in ACR-FY10-NP27 file “MP Cost by wgt-fn for PM nsa-fy2010.xls” is sourced in tab “FY10 Ops” cell “A27” to a workbook not provided in the library reference. In short, the process for evaluating proposals of this nature would be greatly improved by the Postal Service filing all relevant information in the docket proposing a change, and (as always) linking all materials to the original source. However, assigning costs in the fashion proposed by the Postal Service is a refinement and improvement compared previous methods. As noted by the Commission in the 2008, 2009, and 2010 ACD Reports, the primary difficulty regarding the statutory evaluation of competitive NSAs remains the reporting of contract-specific volume, revenue, and cost information.

³ All materials responsive to the Chairman’s request for information, and the impetus for this docket, were filed under seal. As such, these comments avoid propriety and confidential details. “The response to this question, and the associated Excel materials, are provided under seal as part of USPS-FY10-NP33.” Postal Service Response to CHIR No. 5, March 4, 2011 at 5.

III. Conclusion

The Public Representative recommends that the Commission approve the updates to the competitive NSA costs models contained in Proposal Two.

Respectfully submitted,

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